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I. INTRODUCTION

Absent a contractual agreement to the contrary, employees have no general duty not to compete with a former employer. For example, in *Crane Co. v. Dahle*,[1] four employees gave their employer notice that they were quitting employment and going to work elsewhere. The employer terminated all four employees immediately, and the four went to work for a competitor several days later. The Utah Supreme Court held that the four were free to compete with their former employer, and that the employees had violated no common law duty to their former employer by advising the employer's customers that the employees were leaving their positions.[2]

Employers thus should utilize contractual covenants not to compete or other non-solicitation agreements to limit an employee's ability to compete during or after employment. Covenants not to compete have traditionally been disfavored by courts.[3] However, under appropriate circumstances covenants not to compete will be upheld.

This article will first analyze the elements required under Utah law to enforce a covenant not to compete, including (1) the covenant must be evidenced by a written contract supported by valid consideration, (2) no bad faith exists in the negotiation of the contract, (3) the covenant is necessary to protect a legitimate interest of the employer, and (4) the covenant must be reasonable in its restrictions as to time and space. The article will then explore the following practical aspects of non-competition agreements: (1) applicability of liquidated damage provisions in the agreement; (2) ability of a court to modify the covenants in its discretion; and (3) remedies available for breach of a covenant not to compete.

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1. 576 P.2d 870, 872 (Utah 1978).
2. *Id.* at 872-73.
3. Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373, 406 (1910).

II. VALID NON-COMPETITION AGREEMENTS

A. *Consideration Necessary to Support a Covenant Not to Compete*

Under Utah law, an offer of continued employment is adequate consideration to support a covenant not to compete, at least where the employment was "at will" prior to the execution of the agreement.[4] The only exception is where the employment is terminated shortly after entering into the contract, which suggests bad faith, or where there was a preexisting contract for a definite term, and, therefore, a lack of consideration.[5] Obviously, if continued employment is sufficient consideration to support a covenant not to compete, then a material change in the employment relationship which is beneficial to the employee, such as an increase in compensation, a change in the term of the employment, or a change in duties or responsibilities also provides consideration for a covenant not to compete.

Courts may also enforce a covenant not to compete which is contained in a contract entered into in connection with the employee's termination if adequate consideration exists to support such a covenant.[6] In drafting such contracts, employers should make clear that in exchange for the covenant not to compete the employee received consideration beyond that to which the employee would otherwise be entitled upon termination. As noted above, a covenant must be evidenced by a writing.

B. *Legitimate Interests of an Employer Which May Be Protected*

A covenant not to compete will be enforceable only if it constitutes a restraint reasonably necessary to protect one or more legitimate interests of the employer.[7] In drafting a contract containing a non-competition covenant, an employer should explicitly identify what those interests are. The following explores the interests which the courts have held may be legitimately protected.

1. Trade Secrets

Under Utah law, and that of most jurisdictions, an employer may take reasonable steps to prevent employees from converting the employer's trade secrets to their own use.[8] For information to constitute a trade secret it must not be part of the general knowledge and skill the employee devel-

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4. Systems Concepts, Inc. v. Dixon, 669 P.2d 421, 425-26 (Utah 1983); *see also* Microbiological Research Corp. v. Muna, 625 P.2d 690, 692 (Utah 1981).
5. *Systems Concepts*, 669 P.2d at 426.
6. Allen v. Rose Park Pharmacy, 237 P.2d 823 (Utah 1951).
7. Robbins v. Finlay, 645 P.2d 623, 627 (Utah 1982).
8. J & K Computer Systems, Inc. v. Parrish, 642 P.2d 732 (Utah 1982).

oped on the job or information available in the public domain. Utah has adopted the following definition of trade secret:

> (4) "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
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> (a) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
>
> (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[9]

In *Microbiological Research v. Muna*,[10] the plaintiff employer was a corporation engaged in the production of medical diagnostic kits utilizing the immunofluorescence technique of tracing diseases. The defendant employee had been working with the above technique for a number of years before his employment with the plaintiff. After the plaintiff terminated the defendant's employment, the defendant initiated plans to manufacture a line of products similar to that of the plaintiff. The plaintiff brought suit, arguing that during his employment the defendant learned of the plaintiff's confidential, proprietary and secret methods of operation, such as lists of clients, combinations of chemicals, and methods of production, which the defendant was then utilizing in his competing business. The Utah Supreme Court reversed a judgment in favor of the plaintiff, holding that the knowledge and skill at issue was well known in the industry and not confidential information.[11] The court also held that customer identity and location were not trade secrets, because the location and identity of potential customers were public knowledge.[12]

However, in *J & K Computer Systems, Inc. v. Parrish*,[13] the Utah Supreme Court held that information regarding unique computer programs could be protected as a trade secret because it was not commonly known in the industry, and the employer had taken appropriate action to protect the information.

It is important to note that Utah courts have held that an employee's agreement not to use a certain category of information is unenforceable unless the information is in fact secret or not generally known.[14] Thus, a confidentiality agreement will not protect an employer unless the infor-

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9. UTAH CODE ANN. § 13-24-2 (1996).
10. 625 P.2d 690 (Utah 1981).
11. *Id.* at 696-700.
12. *Id.*
13. 642 P.2d 732 (Utah 1982).
14. *Microbiological Research*, 625 P.2d at 696.

mation for which protection is sought is in fact confidential and secret. Absent a covenant not to compete, an employee has the right to use his or her general knowledge, experience, memory and skill gained through the former employment even though such use may prove detrimental to the former employer.[15]

2. *Goodwill*

Employers often fear that customers will follow a terminated employee rather than continuing to do business with the employer. In Utah, to justify the enforcement of a restrictive covenant on the basis of protecting goodwill, an employer must show that "the services rendered by the employee were special, unique or extraordinary."[16] A covenant not to compete will not be enforced simply because the employee's good service created some goodwill for the employer, and customers may follow the employee because of the prior good service.[17]

Whether a covenant not to compete may be enforced against a former employee depends on an analysis of the duties, functions and roles of that particular employee. Unfortunately, the courts have not provided objective or easily definable parameters which can be applied to determine whether an employee provides "special, unique or extraordinary" services such that a covenant not to compete may be used to protect goodwill.

In *Robbins*,[18] a company engaged in the sale of hearing aids sought to enforce a covenant not to compete against its former salesperson. The court denied enforceability, finding that the covenant served no purpose other than restricting an employee from competing with a former employer. The court found that the employee was not "largely responsible" for generation of the employer's goodwill and that the employee's job required little training and was not unlike many other sales jobs:

> [T]here is no showing that his services were special, unique, or extraordinary, even if their value to his employer was

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15. As the court in *Amex Distributing Co. v. Mascari*, 724 P.2d 596, 602-03 (Ariz. Ct. App. 1986) observed:

> [T]he right of an individual to follow and pursue the particular occupation for which he is best trained is a most fundamental right. Our society is extremely mobile and our free economy is based upon competition. One who has worked in a particular field cannot be compelled to erase from his mind all of the general skills, knowledge and expertise acquired through his experience. These skills are valuable to such employee in the market place for his services. Restraints cannot be lightly placed upon his right to compete in the area of his greatest worth. . . . [A]bsent a special and enforceable duty, an alert salesperson is not required to undergo a prefrontal lobotomy.

16. Systems Concepts, Inc. v. Dixon, 669 P.2d 421, 426 (Utah 1981).
17. Robbins v. Finlay, 645 P.2d 623, 628 (Utah 1982).
18. *Id.* at 623.

> high. . . . It is of no moment that defendant may have been especially proficient in his work. General knowledge or expertise acquired through employment in a common calling cannot be appropriated as a trade secret. "The efficiency and skills which an employee develops through his work belong to him and not his former employer."[19]

On the other hand, in *Systems Concepts*,[20] the court upheld a covenant not to compete against the defendant, who had been the plaintiff's national sales manager. The court found that in her capacity as national sales manager, the defendant became knowledgeable and familiar with the plaintiff's products, sales methods and customers. She was involved to some degree in the design and technical development of a number of the plaintiff's products and had access to proprietary information. Her name, picture and role as national sales manager were promoted extensively in connection with company products. The court held that these factors demonstrated that the plaintiff developed its goodwill "to a substantial degree" through the defendant, and that her services were special and unique, particularly in comparison to other employees with sales-related positions in the company.[21]

In *Kasco Services, Co. v. Benson*,[22] the Utah Supreme Court held a non-competition agreement enforceable against a former salesman for a butcher supply company where the salesman, Benson, was the only sales representative in his territory and, according to the court, was therefore responsible for the goodwill of the business in the territory.[23] The court made several other important rulings in this area. First, the court, overturning the trial court, ruled that even though Benson had attempted to disavow the non-competition agreement six months before he left his employment, the agreement should run from the date of his termination, rather than from the date of disavowal.[24] Second, the court held that third parties, in this case Benson's wife and son, could be enjoined from competition if they are shown to be knowingly aiding or assisting the covenantor in violating the non-competition agreement.[25] Thus, an em-

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19. *Id.* at 628 (quoting Hallmark Personnel of Texas, Inc. v. Franks, 562 S.W.2d 933, 936 (Tex. App. 1978)).

20. 669 P.2d 421.

21. *Id.* at 426-27.

22. 831 P.2d 86 (Utah 1992).

23. *Id.* at 87-88. In a spirited dissent, Justice Daniel Stewart argued that the majority's ruling in *Kasco* "eviscerated" *Robbins* and in effect allows non-competition agreements to be enforced in virtually any case involving salespersons. *Id.* at 93-97.

24. *Id.* at 89.

25. *Id.* at 90-91.

ployee who is subject to a valid covenant not to compete cannot compete through a third party.

As a final note, some non-competition agreements also contain a non-solicitation provision, under which the employee agrees to refrain from soliciting the employer's customers for a period after termination. In *Robbins v. Finlay*,[26] the court upheld a non-solicitation provision while striking the covenant not to compete as unenforceable. While the *Robbins* court did not purport to consider the non-solicitation provision in striking the non-competition agreement, a court may be tempted to uphold the non-solicitation provision rather than the broader covenant not to compete. Thus, where an employer determines that a non-competition agreement is appropriate, a non-solicitation agreement is simply redundant and may dilute arguments in favor of a covenant not to compete. However, in certain circumstances a non-solicitation agreement may adequately protect the employer's interests and may be easier to enforce. For example, a non-solicitation agreement which prevents a terminated salesperson from using customer leads developed by the employer after termination protects the employer but bypasses the difficulties of enforcing a non-competition agreement, particularly against a salesperson.

3. *Special Investment in the Employee*

An employer may also protect a special investment in an employee through a covenant not to compete. To sustain a restrictive covenant under this rationale, an employer must demonstrate that the employee has acquired more than the general knowledge and skill that any employee would gain on the job.[27] The training must be extensive and specialized. In determining whether the employer has a protectable interest in the employee, the amount of experience and training brought to the job by the employee is also relevant. In *Robbins*, the court relied in part on the plaintiff's prior experience as a hearing aid salesman for other dealers in finding that the employer had made no "special investment" in plaintiff.[28]

C. Reasonableness — Time and Space

To be enforceable, a restrictive covenant must be reasonable in temporal and geographical scope.[29] In determining reasonableness, a court will consider the particular interest sought to be protected and the impact on the employee. A restraint on competition which exceeds that reason-

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26. 645 P.2d 623 (Utah 1982).
27. *Id.* at 628.
28. *Id.*
29. Systems Concepts, Inc. v. Dixon, 669 P.2d 421, 426 (Utah 1983).

ably necessary to protect the employer's legitimate interest will not be enforced.[30] With respect to the length of time, a period of two years or less is generally considered reasonable. However, a court may enforce a longer period where the employer can demonstrate that such period is necessary to preclude unfair competition.[31]

With respect to geographical restrictions, as business increasingly becomes conducted on a national or international basis, courts have been willing to allow geographical restrictions which cover the entire geographic area in which the employer does business. For example, in *Systems Concepts*, the court upheld a restrictive covenant without a geographical limitation due to the national market for the employer's products.[32] In addition, rather than a geographical restriction, some employers are using a prohibition against working for a competitor or a former customer during the non-compete period. Such restrictions more narrowly and directly protect an employer's interest in precluding unfair competition, while still leaving employees open to seek employment in their given field.

III. Practical Aspects of Non-Competition Agreements

As shown above, non-competition agreements, within certain limits, are enforceable in Utah. This article now turns to elements attorneys should consider when drafting non-competition agreements.

A. Liquidated Damages Provisions in Non-Competition Agreements

Utah courts have upheld liquidated damages provisions for breach of various covenants related to competition following the termination of employment.[33] In *Robbins v. Finlay*,[34] the court upheld a liquidated damages provision of $5,000 in connection with the breach of a non-solicitation covenant precluding the use of customer leads. The court followed the general rule that liquidated damages provisions, while viewed with some degree of suspicion, will be enforced where the amount fixed as damages is a reasonable forecast of the damages resulting from a breach and where the agreement was not the product of unfairness, such as unfair bargaining positions or lack of access to pertinent information.[35] The court found

30. *Id.*

31. Allen v. Rose Park Pharmacy, 237 P.2d 823, 828 (Utah 1951).

32. *Systems Concepts*, 669 P.2d at 427.

33. A liquidated damages provision is one which provides in the original agreement a set amount to be recovered in the event of a breach of the agreement. Regional Sales Agency, Inc. v. Reichert 784 P.2d 1210, 1214 (Utah Ct. App. 1989).

34. 645 P.2d 623 (Utah 1982).

35. *Id.* at 625-27.

the $5,000 amount reasonable based on evidence showing that although plaintiff actually used only five leads, the employee took 150 leads, and 150 sales could produce gross revenues of $50,000.

Similarly, in *Regional Sales Agency, Inc. v. Reichert*,[36] the court upheld a liquidated damages provision for breach of a non-competition agreement. Again, the court's ruling was based on the fact that the liquidated damages provision was not unreasonable as a matter of law and appeared to be a reasonable estimate of the damages that could result from the breach.[37]

B. Blue Pencil Clauses

Where a court finds that one or more of the elements of a covenant not to compete is unreasonable or unenforceable, the court may either void the entire agreement or "blue pencil" the covenant by deleting or modifying the unreasonable provision or provisions to make it enforceable. Some courts appear willing to undertake some modifications even in the absence of a contract provision expressly allowing such modification.[38] While Utah courts have never addressed this issue directly, they have not seemed eager to "blue pencil" in order to enforce an agreement.[39] However, courts may be more likely to "blue pencil" as necessary to enforce the agreement if the parties have included a provision expressly calling for such modification. Thus, an employer is well-advised to include such a provision.

C. Remedies Available for Breach of a Covenant Not to Compete

Courts have allowed a number of remedies for breach of a covenant not to compete, including compensatory damages, liquidated damages, injunctive relief and disgorgement of profits.[40] To obtain injunctive relief, an employer must show that: (1) it is likely to prevail on its claim; (2) it would suffer irreparable injury if the employee is not enjoined; and (3) the employee is doing or is about to do some act in violation of the em-

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36. 784 P.2d 1210, 1214 (Utah Ct. App. 1989).

37. *Id.*

38. *See* Olliver/Pilcher Ins., Inc. v. Daniels, 715 P.2d 1218, 1221 (Ariz. 1986) (under Arizona law, a court may enforce the lawful part of a contract and ignore the unlawful provision); Insurance Center, Inc. v. Taylor, 499 P.2d 1252, 1255-56 (Idaho 1972) (where a covenant not to compete is otherwise enforceable, court may narrow restrictions of a covenant to make it enforceable).

39. *See, e.g.*, Allen v. Rose Park Pharmacy, 237 P.2d 823, 828 (Utah 1951) (enforcing a five year covenant despite noting that period was perhaps too long).

40. *See, e.g.*, Kasco Services, Co. v. Benson, 831 P.2d 86, 92 (Utah 1992) (damages); Regional Sales Agency, Inc. v. Reichert, 784 P.2d 1210, 1214 (Utah Ct. App. 1989) (liquidated damages); Systems Concepts, Inc v. Dixon, 669 P.2d 421, 429 (Utah 1983) (injunctive relief).

ployer's rights.[41] In general, covenant not to compete cases are won or lost at the injunctive stage, as the most significant damage from a competing ex-employee occurs in the initial period of competition. Without an injunction, an employer may never regain the business lost to the ex-employee during the litigation period. Thus, an employer must be prepared to move quickly and vigorously to enforce its rights.

IV. CONCLUSION

To effectively protect its rights, an employer should use a well-written and clear agreement. An employer should consider carefully which employees should be asked to sign a covenant not to compete and should tailor the restrictions on competition to protect the employer's interest. Agreements that unduly restrict an employee's future right of competition are less likely to be enforced. Employers should document carefully the uniqueness of the employee's role within the organization and any special training or education provided to the employee.

Depending on the employment situation, it may be appropriate to have all employees sign agreements restricting the disclosure of confidential or proprietary information. The employer should take all possible steps to maintain the confidentiality of alleged proprietary information, as ultimate enforcement of any such agreement will rest on proof that the information for which protection is sought is in fact proprietary and confidential.

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41. *Systems Concepts*, 669 P.2d at 427-28.